

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mideastern Michigan Library Cooperative	County Genesee
Fiscal Year End 9-30-06	Opinion Date 11-20-06	Date Audit Report Submitted to State January 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

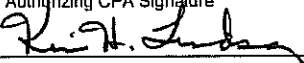
YES
X

NO
0 Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lewis & Knopf, P.C.		Telephone Number 810-238-4617	
Street Address 5206 Gateway Centre - Ste 100		City Flint	State MI
Zip 48507			
Authorizing CPA Signature 	Printed Name Kim H. Lindsay, CPA	License Number 110101843	

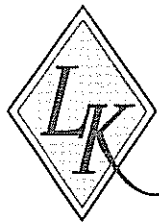
MIDEASTERN MICHIGAN LIBRARY COOPERATIVE

FLINT, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	I
Management's Discussion and Analysis	II – VII
Basic Financial Statements:	
Government-wide Financial Statements:	
Governmental Fund Balance Sheet/Statement of Net Assets	1
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/ Statement of Activities	2
Fiduciary Fund	
Statement of Fiduciary Net Assets	3
Budgetary Comparison Schedule:	
General Fund	4
Notes to Financial Statements	5 – 11
Individual Fund Schedules:	
Schedule 1 - General Fund – Schedules of Expenses	12
Schedule 2 - Trust and Agency Fund – Schedule of Receipts and Disbursements	13
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

November 20, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mideastern Michigan Library Cooperative

We have audited the accompanying financial statements of the governmental activities of Mideastern Michigan Library Cooperative, as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Mideastern Michigan Library Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Mideastern Michigan Library Cooperative as of November 20, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2006 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The management's discussion and analysis on pages II - VII are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mideastern Michigan Library Cooperative's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

As management of the Mideastern Michigan Library Cooperative, we offer readers of the Mideastern Michigan Library Cooperative's financial statements this narrative overview and analysis of the financial activities of the Mideastern Michigan Library Cooperative for the fiscal year ended September 30, 2006.

FINANCIAL HIGHLIGHTS

- * The Cooperative reports net assets of \$388,572 this year on a full accrual basis, as compared to fund balances of \$405,491 on the modified accrual basis.
- * The Cooperative's primary source of revenue is from state aid. For 2006, total state aid was \$555,271. This represents approximately 76 percent of total revenue, which is a decrease of 0.3% over prior year.
- * Salaries and fringe benefits are the largest overall expenditures of the Cooperative. For 2006, this expenditure was \$190,030, representing 27 percent of the Cooperative's total expenditures, which is an increase of 21% from prior year.
- * Delivery and transportation is the second largest overall expenditure of the Cooperative. For 2006, this expenditure was \$151,413, representing 22 percent of the Cooperative's total expenditures, which is an increase of 0.6% from prior year.
- * Blind and physically handicapped program expenses are the third largest overall expenditure of the Cooperative. For 2006, this expenditure was \$86,728, representing 12 percent of the Cooperative's total expenditures, which is a increase of 3% from prior year.
- * Total expenditures for the entire year under the modified accrual method of accounting were \$696,798 which represents a decrease of \$87,444 from prior year primarily due to reduced telecommunication expenditures and the completion of the LSTA Lapeer County grant.
- * The Cooperative's conversion to meet GASB 34 standards, which includes capitalization of Cooperative owned assets and associated depreciation expense, as well as the increase in compensated absences expense, is reflected in the Statement of Activities on page 2 of this financial report.

USING THIS ANNUAL REPORT

This annual report consists of three parts: *Management's Discussion and Analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Cooperative.

- * The first column of the financial statements includes information on the Cooperative's General Fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Cooperative's sources and uses of funds.
- * The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- * The third column presents the Cooperative's operations on a full accrual basis, which provides both long, and short-term information about the Cooperative's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Cooperative on a longer-term view of the Cooperative's finances.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

USING THIS ANNUAL REPORT (Continued)

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the Cooperative as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Cooperative's net assets and how they have changed. Net assets—the difference between the Cooperative's assets and liabilities—is one way to measure the Cooperative's financial health, or position.

- * Over time, increases or decreases in the Cooperative's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- * To assess the overall health of the Cooperative you need to consider additional nonfinancial factors such as changes in the Cooperative's state revenue base and the number of libraries in the cooperative

Fund Financial Statements

The fund financial statements provide more detailed information about the Cooperative's most significant funds, not the Cooperative as a whole. Funds are accounting devices that the Cooperative uses to keep track of specific sources of funding and spending for particular purposes.

The Cooperative has two kinds of funds:

- * Governmental funds - All of the Cooperative's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Cooperative's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- * Fiduciary funds - The Cooperative is the trustee, or fiduciary, for its member libraries. The Cooperative is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Cooperative's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Cooperative's government-wide financial statements because the Cooperative cannot use these assets to finance its operations.

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the Cooperative, assets exceed liabilities by \$388,572 at the close of the most recent fiscal year.

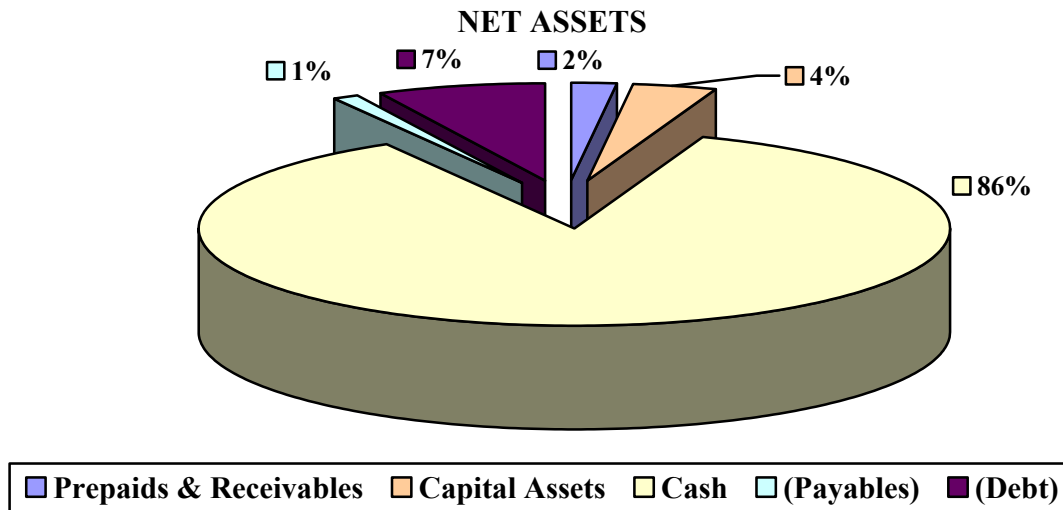
Of the Cooperative's net assets 4% reflects its investment in capital assets (e.g., furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The Cooperative uses these capital assets to provide services to members; consequently, these assets are *not* available for future spending. Although the Cooperative's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CONDENSED FINANCIAL INFORMATION

The following table below shows key financial information in a condensed format:

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$411,427	\$372,404
Non-Current Assets	<u>16,648</u>	<u>17,258</u>
<u>TOTAL ASSETS</u>	<u>\$428,075</u>	<u>\$389,662</u>
<u>LIABILITIES</u>		
Current Liabilities	\$5,936	\$5,551
Non-Current Liabilities	<u>33,567</u>	<u>25,880</u>
Total Liabilities	<u>\$39,503</u>	<u>\$31,431</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	16,648	17,258
Unrestricted	<u>371,924</u>	<u>340,973</u>
<u>TOTAL NET ASSETS</u>	<u>\$388,572</u>	<u>\$358,231</u>



During fiscal year ended September 30, 2006 the Cooperative's net assets increased by \$30,341 Cooperative is able to report positive balances in all categories of net assets for its governmental activities.

Net Assets - Invested in Capital Assets – Net of Debt

A portion of the change related to the Cooperative's Invested in Capital Assets – Net of Debt. Net Assets Invested in Capital Assets – Net of Debt decreased by \$610 during the year due to depreciation exceeding purchases of new capital assets.

Net Assets - Unrestricted

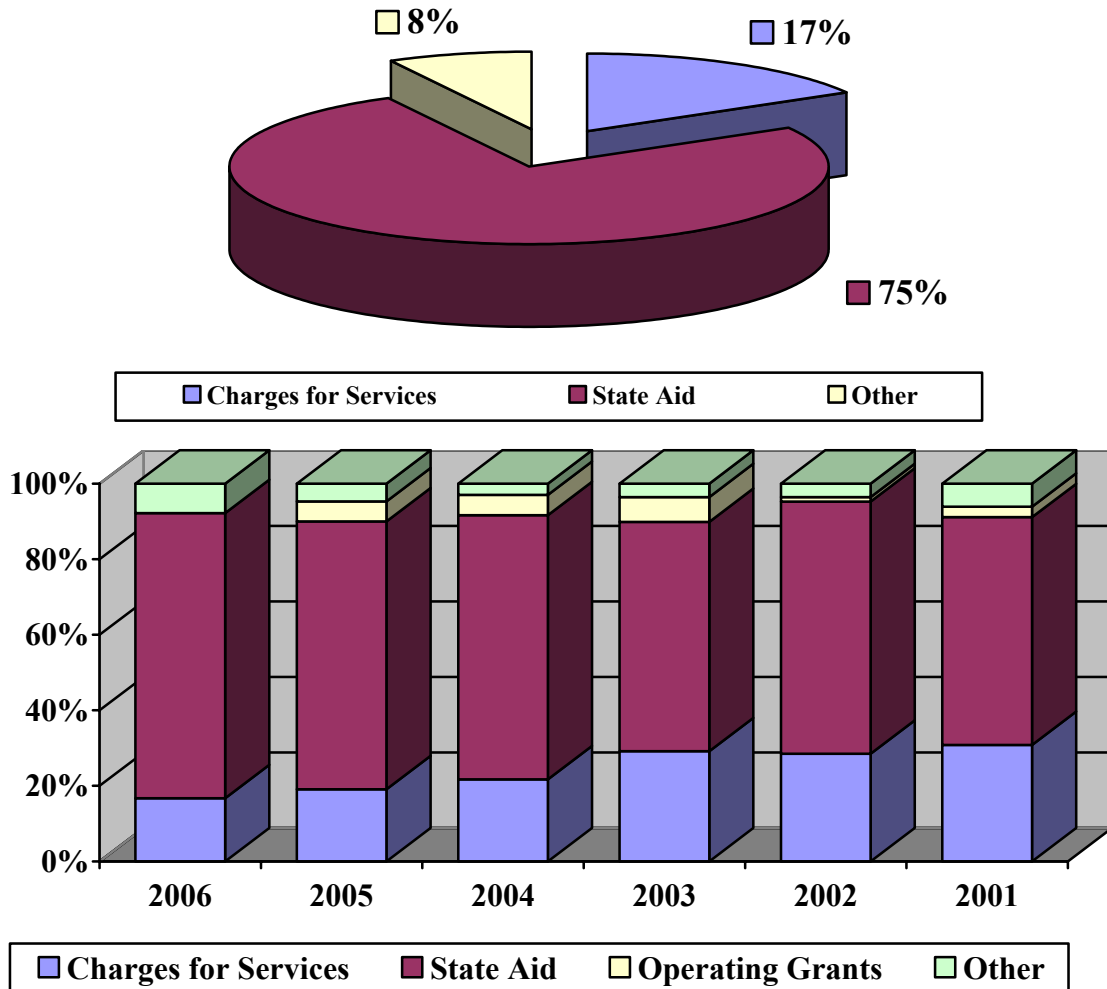
The Cooperative's Unrestricted Net Assets increased \$30,951 during the year. These funds are used to meet government's ongoing obligations to citizens and creditors. The majority of this increase represents the recording of the change in compensated absences in relation to the implementation of GASB 34 and controlled expenses.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CONDENSED FINANCIAL INFORMATION (Continued)

	<u>2006</u>	<u>2005</u>
<u>REVENUE</u>		
Charges for Services	\$123,004	\$150,041
State Aid	555,271	556,977
Operating Grants	0	41,502
Other Revenue	<u>57,161</u>	<u>36,814</u>
Total Revenue	<u>\$735,436</u>	<u>\$785,334</u>
<u>EXPENDITURES</u>		
Operating	239,242	295,579
Programs and Projects	<u>465,853</u>	<u>521,461</u>
Total Expenditures	<u>\$705,095</u>	<u>\$817,040</u>
<u>REVENUE OVER EXPENDITURES</u>	<u>\$30,341</u>	<u>(\$31,706)</u>

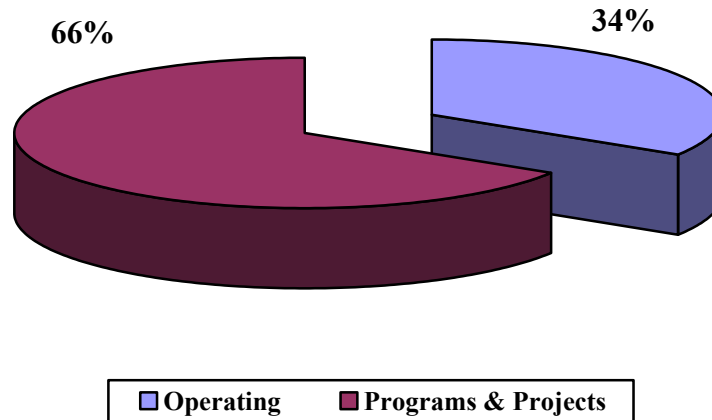
2006 REVENUE



MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CONDENSED FINANCIAL INFORMATION (Continued)

2006 EXPENDITURES



THE COOPERATIVE'S GENERAL FUND

Our analysis of the Cooperative's General Fund is included on pages 1 and 2 in the first column of the respective statements. The fund column provides detailed information about the General Fund on a modified accrual basis of accounting, which is a short-term perspective measuring the flow of financial resources, - not the Cooperative's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources. The Cooperative's only fund is the General Fund.

* The fund balance of the General Fund increased by \$38,638 for the year. This represents expenditures greater than revenues.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

GENERAL FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenues	\$707,946	\$721,775	\$735,436	1.95	(1.89)
Expenditures	707,946	721,775	696,798	1.95	3.46
<u>TOTAL</u>	<u>\$0</u>	<u>\$0</u>	<u>\$38,638</u>		

COOPERATIVE BUDGETARY HIGHLIGHTS

Over the course of the year, the Cooperative Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in relation to income and expenditure from grants, increased programs and workshops, increased interest income, and changes in telecom costs, compared to prior year.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Actual Results vs. Final Budgets

Revenue

The most significant variances between revenue budgeted and actual were in relation to higher interest and miscellaneous revenue.

Expenditures

The most significant variances between expenditures budgeted and actual was in relation to expenses not being budgeted at higher than actual.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As a result of GASB 34 implementation, the Cooperative adopted a capitalization policy of \$1,000. In order to fully implement the new policy we restated the capital assets for this new capitalization policy.

Capital asset activity for the fiscal year ended September 30, 2006, was as follows:

	Balance Oct. 1, 2005	Additions	Deductions	Balance Sept. 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Equipment and Furniture	\$37,032	\$3,656	(\$5,198)	\$35,490
Less: Accumulated Depreciation	(19,774)	(4,266)	5,198	(18,842)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$17,258</u>	<u>(\$610)</u>	<u>\$0</u>	<u>\$16,648</u>

DEBT

A summary of the debt outstanding at the Cooperative is as follows:

	Balance Oct. 1, 2005	Additions	Deductions	Balance Sept. 30, 2006
<u>Governmental Activities:</u>				
Compensated Absences	<u>\$25,880</u>	<u>\$7,687</u>	<u>\$0</u>	<u>\$33,567</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Cooperative's 2006/2007 adopted budget is as follows:

REVENUE

State Sources	\$508,214
Local Sources	<u>145,795</u>
Total Revenue Collected	\$654,009

EXPENDITURES

654,009

NET OVER BUDGET

\$0

CONTACTING THE COOPERATIVE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members and taxpayers with a general overview of the Cooperative's finances. If you have questions about this report or need additional information, contact the Director at Mideastern Michigan Library Cooperative.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
GOVERNMENTAL FUND BALANCE SHEET/ STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2006

	<u>General Fund - Modified Accrual Basis</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Net Assets - Full Accrual Basis</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and Cash Equivalents	\$402,435	\$0	\$402,435
Due from Other Funds	2,667	0	2,667
Prepaid Assets	6,325	0	6,325
Total Current Assets	<u>\$411,427</u>	<u>\$0</u>	<u>\$411,427</u>
<u>NON-CURRENT ASSETS</u>			
Capital Assets	0	35,490	35,490
Less: Accumulated Depreciation	<u>0</u>	<u>(18,842)</u>	<u>(18,842)</u>
Total Non-Current Assets	<u>\$0</u>	<u>\$16,648</u>	<u>\$16,648</u>
<u>TOTAL ASSETS</u>	\$411,427	\$16,648	\$428,075
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	839	0	839
Accrued Payroll	5,097	0	5,097
Total Current Liabilities	<u>\$5,936</u>	<u>\$0</u>	<u>\$5,936</u>
<u>NON-CURRENT LIABILITIES</u>			
Compensated Absences	<u>0</u>	<u>33,567</u>	<u>33,567</u>
Total Liabilities	<u>\$5,936</u>	<u>\$33,567</u>	<u>\$39,503</u>
<u>FUND BALANCE/NET ASSETS</u>			
<u>FUND BALANCE</u>			
Unreserved - Undesignated	<u>405,491</u>		
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$411,427</u>		
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt		16,648	16,648
Unrestricted		<u>(33,567)</u>	<u>371,924</u>
<u>TOTAL NET ASSETS</u>		<u>(\$16,919)</u>	<u>\$388,572</u>

See accompanying notes to the basic financial statements

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE/ STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>General Fund - Modified Accrual Basis</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Activities - Full Accrual Basis</u>
<u>REVENUE</u>			
Charges for Services	\$123,004	\$0	\$123,004
State Aid	555,271	0	555,271
Interest Income	39,716	0	39,716
Miscellaneous	17,445	0	17,445
Total Revenue	<u>\$735,436</u>	<u>\$0</u>	<u>\$735,436</u>
<u>EXPENDITURES</u>			
Operating	234,627	4,615	239,242
Programs and Projects	462,171	3,682	465,853
Total Expenditures	<u>\$696,798</u>	<u>\$8,297</u>	<u>\$705,095</u>
<u>REVENUE OVER (UNDER) EXPENDITURES</u>	\$38,638	(\$8,297)	\$30,341
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>366,853</u>	<u>(8,622)</u>	<u>358,231</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$405,491</u>	<u>(\$16,919)</u>	<u>\$388,572</u>

See accompanying notes to the basic financial statements

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF SEPTEMBER 30, 2006

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$818,989</u>
<u>TOTAL ASSETS</u>	<u><u>\$818,989</u></u>
<u>LIABILITIES</u>	
Due to Other Fund	\$2,667
Due to Other Libraries	<u>816,322</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$818,989</u></u>

See accompanying notes to the basic financial statements.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUE</u>				
Charges for Services	\$127,363	\$123,061	\$123,004	(\$57)
State Aid	555,583	555,271	555,271	0
Interest Income	25,000	38,000	39,716	1,716
Miscellaneous	0	5,443	17,445	12,002
Total Revenue	<u>\$707,946</u>	<u>\$721,775</u>	<u>\$735,436</u>	<u>\$13,661</u>
<u>EXPENDITURES</u>				
Operating	241,318	254,359	234,627	19,732
Programs and Projects	466,628	467,416	462,171	5,245
Total Expenditures	<u>\$707,946</u>	<u>\$721,775</u>	<u>\$696,798</u>	<u>\$24,977</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>\$0</u>	<u>\$0</u>	<u>\$38,638</u>	<u>\$38,638</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>366,853</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>405,491</u>	

See accompanying notes to the basic financial statements.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mideastern Michigan Library Cooperative was established under Michigan Public Act 286, 1965, known as the State Aid to Public Libraries Act of 1965 as amended by Public Act 89, 1977. The service area of the Cooperative is all of Genesee, Bay, Ingham, Lapeer, and portions of Midland, Saginaw, Shiawassee and Oakland Counties. The Cooperative itself does not provide direct service to the public; rather, it aids and assists member libraries in their endeavors to better serve the public. Funds for the Cooperative's operation come from local, state, and federal sources.

The general purpose financial statements of the Mideastern Michigan Library Cooperative have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Cooperative's accounting policies are described below:

REPORTING ENTITY

The Mideastern Michigan Library Cooperative is the basic level of government which has financial accountability and control over all activities related to the Cooperative within the geographical area known as Mideastern Michigan. The Cooperative receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Cooperative is not included in any other governmental "reporting entity" as defined by GASB pronouncement. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the Cooperative's reporting entity.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Cooperative has one fund, the General Fund, which is the Cooperative's primary operating fund.

The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Cooperative considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for expenditures.

In addition to presenting information for the General Fund, the statements combine all fund activity and present information for the Cooperative as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

FIDUCIARY FUND TYPE

Trust and Agency Fund

This fund is used to account for assets held by the Cooperative in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT AMOUNTS

CASH AND CASH EQUIVALENTS

The Cooperative considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Investments are reported at fair market value and determined using selected bases. Short-term investments are reported at cost, which approximate fair values. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

INVESTMENTS

In accordance with Public Act 20 of the Public Acts of 1943, as amended, the surplus funds of the Mideastern Michigan Library Cooperative (MMLC) may be invested as follows:

- a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state of the United States.
- c) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d) Repurchase agreements consisting of instruments listed in subdivision (a) above. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the Mideastern Michigan Library Cooperative (MMLC) has negotiated a Master Repurchase Agreement. Repurchase Agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Repurchase Agreement.
- e) Bankers' acceptances of United States banks.
- f) Mutual funds registered under the investment company act of 1940, maintain a \$1 per share net asset value, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.

PREPAID EXPENSES

Prepaid balances are for payments made by the Cooperative in the current year to provide services occurring in the subsequent fiscal year.

CAPITAL ASSETS

Generally, capital assets are defined by the Cooperative with an initial cost of more than \$1,000. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT AMOUNTS (Continued)

CAPITAL ASSETS (Continued)

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Equipment and Furniture	<u>5 - 7 Years</u>

REVENUE RECOGNITION

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Cooperative reports any donor-restricted contributions whose restrictions are not in the same accounting period as unrestricted support.

COMPENSATED ABSENCES

The Cooperative reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick and vacation leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick and vacation leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Cooperative's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

DEFERRED REVENUE

Income is recognized as revenue as it is earned. Prepayments are recorded as deferred until the revenue is earned over the year.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

2) DEPOSITS

As of September 30, 2006, the Cooperative had no investments.

Interest rate risk. The risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Cooperative's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The risk of loss attributed to the magnitude of the Cooperative's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Concentration of credit risk. The risk of loss attributed to the magnitude of the Cooperative's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Cooperative did not have any investments as of September 30, 2006.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. As of September 30, 2006, \$939,912 of the Cooperative's bank balance of \$1,239,915 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Cooperative's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Cooperative will do business.

Foreign currency risk. The Cooperative is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$819,989	\$ 1,222,424
Investments	<u>0</u>
<u>TOTAL</u>	<u>\$ 1,222,424</u>

The above amounts are reported in the financial statements as follows:

Cash – Fiduciary Fund	\$ 819,989
Cash – Government Wide	402,435
Investments – Government Wide	<u>0</u>
<u>TOTAL</u>	<u>\$ 1,222,424</u>

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

3) CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2006, was as follows:

	Balance Oct. 1, 2005	Additions	Deductions	Balance Sept. 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Equipment and Furniture	\$37,032	\$3,656	(\$5,198)	\$35,490
Less: Accumulated Depreciation	(19,774)	(4,266)	5,198	(18,842)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$17,258</u>	<u>(\$610)</u>	<u>\$0</u>	<u>\$16,648</u>

Depreciation expense was \$4,266 for the year ended September 30, 2006.

4) LONG-TERM DEBT

A summary of the debt outstanding at the Cooperative is as follows:

	Balance Oct. 1, 2005	Additions	Deductions	Balance Sept. 30, 2006
<u>Governmental Activities:</u>				
Compensated Absences	\$25,880	\$7,687	\$0	\$33,567

The compensated absences represent the estimated liability to be paid to employees under various sick and vacation pay contracts. Under the Cooperative's various contracts, employees earn vacation and sick time based on time of service with the Cooperative.

5) RENT EXPENSE

The Cooperative is currently renting office space in the Charles Stewart Mott Foundation Building located in Flint, Michigan at a monthly rate of \$723 plus real estate taxes and operating expenses charged once annually. Rent paid for fiscal year ending September 30, 2006 totaled \$10,198. The 3-year lease agreement commenced on April 1, 2005 and expires on March 31, 2008. The following is a schedule of future minimum rental payments required under this lease:

September 30, 2007	\$ 8,679
September 30, 2008	5,063
<u>TOTAL</u>	<u>\$ 13,742</u>

6) OPERATING LEASES

The Cooperative is currently leasing a postal meter, scale, copier and an automobile. The postage equipment is being leased for 60 months at a quarterly charge of \$150. The lease expires April 20, 2009. The copier is being leased for 60 months at a monthly charge of \$142. The lease was entered into on March 15, 2005. The automobile is being leased for 36 months at a monthly charge of \$394. The lease was entered into on November 15, 2004.

Future maturities are as follows:

<u>SEPTEMBER 30</u>	Postal Meter	Copier	Auto	Total
2007	600	1,704	4,727	7,031
2008	600	1,704	394	2,698
2009	300	1,704	0	2,004
2010	0	852	0	852
<u>TOTAL</u>	<u>\$ 1,500</u>	<u>\$ 5,964</u>	<u>\$ 5,121</u>	<u>\$ 12,585</u>

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

7) BUDGETARY DATA

The Cooperative follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to the beginning of the ensuing fiscal year, the Cooperative Board passes a general appropriations act reflecting formal budget approval in accordance with the Michigan Uniform Budget Act.
- 2) Budgeted amounts in this report are as originally adopted or as amended by the Cooperative Board. Amendments to the original appropriations were made due to changes anticipated in the areas of membership and state aid.

8) RISK MANAGEMENT

The Cooperative is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The Cooperative limits its exposure to such claims through its participation in and payment of premiums for insurance coverage. The Cooperative's management believes that this provides sufficient coverage to protect the Cooperative from any significant adverse financial impact.

9) PENSION PLAN

The Cooperative offers a portable employee owned Simplified Employee Pension Plan (SEPP) under internal revenue code section 408(k) covering substantially all full-time employees. Michael Deeb of Deeb & Associates manages the Kemper Investment plan. The employer contribution is determined and reviewed annually by the Board. The current year covered payroll was \$126,793 and the Cooperative's total payroll amounted to \$126,793. The contribution is computed at 15 percent, effective October 1, 2005, of full-time employee's wages and amounted to \$18,428 for the year ended September 30, 2006.

10) CONTINGENCIES AND COMMITMENTS

The Cooperative participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time although the Cooperative expects such amounts, if any, to be immaterial.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

11) RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Cooperative's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$405,491
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Amounts Reported in the Statement of Net Assets Are

Different Because:

Capital Assets are Not Financial Resources, and are Not Reported in the Funds	16,648
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Long-Term Liabilities	<u>(33,567)</u>
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<u>NET ASSETS OF GENERAL FUND - FULL ACCRUAL BASIS</u>	<u>\$388,572</u>
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Net Changes in Fund Balances - Modified Accrual Basis	\$38,638
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Amounts Reported in the Statement of Activities Are

Different Because:

Capital Outlays are Reported as Expenditures in the Statement of Revenue, Expenditures, and Changes in Fund Balance; in the Statement of Activities, These Costs are Allocated Over Their Estimated Useful Lives as Depreciation:

Increase in Long-Term Liabilities	(7,687)
Purchase of Capital Assets	3,656
Depreciation	<u>(4,266)</u>

<u>CHANGES IN NET ASSETS OF GENERAL FUND - FULL ACCRUAL BASIS</u>	<u>\$30,341</u>
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INDIVIDUAL FUND SCHEDULES

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
GENERAL FUND
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXPENSESOperating

Administrative Salaries and Benefits	\$190,030
Auditing	3,925
Board	2,606
Contingency	2,961
Continuing Education Services	3,670
Institutional Dues	830
Insurance	3,856
Office Supplies and Materials	3,469
Professional Services	1,505
Rent	10,254
Repairs and Maintenance	2,193
Technology Upgrades	4,500
Utilities	4,828
Total Operating	<u>\$234,627</u>

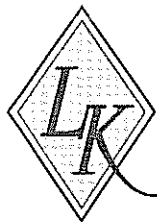
Programs and Projects

Blind and Physically Handicapped	86,728
Delivery and Transportation	151,413
Telecommunications	41,588
Programming	32,201
Promotions and Printing	18,007
Summer Reading Program	66,292
Technology Upgrade Program	65,942
Total Programs and Projects	<u>\$462,171</u>

TOTAL EXPENSES
\$696,798

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BALANCE OCTOBER 1, 2005	RECEIPTS	DISBURSEMENTS	BALANCE SEPTEMBER 30, 2006
Almont - Restricted	\$222	\$2,182	\$2,302	\$102
Almont - Revolving	1,922	222	783	1,361
Bay County - Restricted	22,796	41,337	44,205	19,928
CADL - Restricted	103,305	110,792	128,291	85,806
Community District - Restricted	2,590	8,530	11,120	0
Community District - Revolving	17,774	2,590	4,775	15,589
Dryden - Restricted	1,508	3,715	3,586	1,637
Dryden - Revolving	60	1,508	653	915
Edna Bentley - Restricted	1,852	1,441	2,755	538
Edna C. Bentley - Revolving	503	2,014	162	2,355
F Restricted	49,747	45,125	54,571	40,301
FPL - Revolving Account	89,905	49,747	75,170	64,482
GDL - Restricted	129,121	114,944	131,001	113,064
GDL - Revolving	145,678	129,121	2,720	272,079
Grace A. Dow - Restricted	21,123	29,730	36,976	13,877
Grace A. Dow - Revolving	528	21,123	13,908	7,743
Holly Twp - Restricted	2,856	8,089	8,936	2,009
Holly Twp - Revolving	4,161	3,016	1,558	5,619
Laingsburg - Restricted	1,856	2,576	3,093	1,339
Laingsburg - Revolving	1,431	1,856	40	3,247
Lapeer District - Restricted	17,638	25,419	37,782	5,275
Lapeer District - Revolving	21,360	17,638	780	38,218
North Branch - Restricted	972	1,298	2,270	0
North Branch - Revolving	1,015	972	405	1,582
Ruth Hughes - Restricted	1,297	5,485	5,121	1,661
Ruth Hughes - Revolving	3,399	1,297	40	4,656
Saginaw - Restricted	58,591	47,929	58,654	47,866
Saginaw - Revolving	16,003	58,591	50,860	23,734
SDL Durand - Restricted	673	1,420	2,082	11
SDL Durand - Revolving	708	673	1,381	0
SDL Owosso - Restricted	6,495	8,960	10,558	4,897
SDL Owosso - Revolving	36,332	6,495	8,001	34,826
Vernon - Restricted	647	1,799	1,068	1,378
Vernon - Revolving	1,740	647	2,160	227
<u>TOTALS</u>	<u>\$765,808</u>	<u>\$758,281</u>	<u>\$707,767</u>	<u>\$816,322</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

November 20, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Mideastern Michigan Library Cooperative

We have audited the financial statements of the governmental activities of Mideastern Michigan Library Cooperative, as of and for the year ended September 30, 2006, which collectively comprise the Mideastern Michigan Library Cooperative's basic financial statements and have issued our report thereon dated November 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mideastern Michigan Library Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mideastern Michigan Library Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the finance committee, management and federal awarding agencies and pass-through entities and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS